

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

February 15, 2006

The Capital Projects and Bond Oversight Committee met on Wednesday, February 15, 2006, at 8:30 AM, in Room 125 of the Capitol Annex. Representative Mike Denham, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Elizabeth Tori, Co-Chair; Representative Mike Denham, Co-Chair; Senators Tom Buford and Jerry Rhoads; and Representatives Robert Damron and Paul Marcotte.

Guests testifying before the Committee: John Hicks, Governor's Office for Policy and Management; Jim Abbott and Steven Biven, Finance and Administration Cabinet; Sandy Williams, Kentucky Infrastructure Authority; Terri Fugate, Office of Financial Management; and Walter Clare, Kentucky Housing Corporation.

LRC Staff: Mary Lynn Collins, Nancy Osborne, Kristi Culpepper, and Shawn Bowen.

Representative Denham introduced two special guests, Mitchell Denham (his son) and Jackie Sue Wright.

Senator Buford made a motion to approve the minutes of the January 18, 2006 meeting. The motion was seconded by Senator Tori and approved by unanimous voice vote.

Representative Denham called on Ms. Mary Lynn Collins, Committee Staff Administrator, to review correspondence and information items included in members' folders. Ms. Collins said the folders included four items of correspondence: correspondence from the Department of Financial Incentives, Cabinet for Economic Development, in response to questions raised by the Committee at its January 2006 meeting regarding the number of economic development bond projects that have been funded in Pulaski County; correspondence from the Council on Postsecondary Education reporting its approval of two University of Kentucky projects reviewed and approved by the Committee at previous meetings; correspondence from the Department of Commercialization and Innovation, Cabinet for Economic Development, reporting a grant awarded to Western Kentucky University from the High Tech Investment Pool; and the Kentucky Lottery Corporation's monthly financial report for December 2005.

Ms. Collins said five information items were also included in members' folders: a staff update on various capital projects; proposed legislation relating to the jurisdiction of the Capital Projects and Bond Oversight Committee; a summary of capital projects and capital-related provisions recommended in the 2006-08 Budget Bills; the updated monthly and weekly debt issuance calendar; and an article from The Bond Buyer regarding an upgrade in the Kentucky Turnpike Authority bonds.

Representative Denham asked Mr. John Hicks, Deputy State Budget Director, Governor's Office for Policy and Management, and Mr. Jim Abbott, Commissioner for Facilities and Support Services, Finance and Administration Cabinet, to present the Finance Cabinet's monthly report to the Committee. Mr. Hicks reported that Northern Kentucky University plans to purchase a piece of scientific equipment known as an X-Ray Diffractometer. The equipment will be used to support research activities in the departments of Biological Sciences, Chemistry, Physics, and Geology. Mr. Hicks said the cost of the equipment is \$125,839, and the funding source is federal funds. No action was required on this project.

Representative Denham questioned the Governor's recommended budget, which for the first time includes no appropriations to the Emergency and Contingency Accounts, and actually appropriates approximately \$2 million from each fund. Mr. Hicks said these actions are indicative of how tight and difficult the budget recommendation was for the upcoming biennium.

Mr. Hicks said the Governor is recommending appropriate individual line item projects to be funded from the Emergency Account. He said the projects funded with Emergency Account funds were deemed most critical, and if left undone, would have rise to a level of need which would qualify for use of the Emergency Fund.

Mr. Hicks said the balance in the Contingency Account is \$11 million. The budget recommends \$2 million to be removed from this account. He said they hope the Contingency Account will be reimbursed \$1 million for the feasibility analysis for the Louisville Arena project, subject to the appropriation action of the General Assembly. Mr. Hicks said in the last ten years, approximately \$1.7 million was the average amount of Contingency funds utilized for cost overruns for line item projects. He said they thought the account could sustain a \$2 million reduction.

In response to a question from Senator Buford, Mr. Hicks reiterated the proposed action regarding the Contingency Account is indicative of some of the difficult decisions that were made in this Governor's budget recommendation.

Senator Buford said the state should be cautious about letting the balance of the Contingency Account dip below \$10 or \$11 million. He noted there are a lot of projects in the pipeline that will be bid in the coming months.

Mr. Abbott said he attended a meeting Monday with the budget office regarding funding for some of the larger projects. He said at some point, they may have issues with construction costs, due to Hurricane Katrina, but at this point, it looks favorable that they will be successful in working within the available project budgets that are currently authorized.

Senator Buford said the state should err on the side of caution and be prepared for the cost of construction materials to rise during the next hurricane season. Representative Denham said he was also concerned about the rising costs of construction materials.

Representative Denham then called on Mr. Steve Biven, Director, Division of Real Properties, to present two lease reports. Mr. Biven first reported a lease modification for the Environmental and Public Protection Cabinet (EPPC) in Franklin County. EPPC plans to modify its leased office space to accommodate six new staff being relocated from the Capital Plaza Tower. The cost of the modifications is \$19,150, and will be amortized over the remaining lease term.

Mr. Biven next reported five state leases with square footage modifications for the period October through December 2005. No action was required on these projects since each of the modifications were under \$50,000.

The next report was provided by Ms. Terri Fugate, Financial Analyst for the Office of Financial Management (OFM) and Mr. Walter Clare, Financial Management Senior Director, Kentucky Housing Corporation. Ms. Fugate said OFM submitted one new bond issue report to the Committee this month: Kentucky Housing Corporation Single Family Housing Revenue Bonds, 2006 Series E, F & G, not to exceed \$85 million. Proceeds from this bond issue will be used to provide mortgage financing for first-time low and moderate income Kentucky homebuyers.

Senator Tori made a motion to approve the new bond issue. The motion was seconded by Senator Rhoads and passed by unanimous roll call vote.

Ms. Fugate presented nine new school bond issues with School Facilities Construction Commission (SFCC) debt service participation: Ft. Thomas Independent (Campbell Co.), Graves County, Meade County, Middlesboro Independent (Bell Co.), Paris Independent (Bourbon Co.), Simpson County, Union County, Warren County, and Williamstown Independent (Grant Co.).

Senator Buford made a motion to approve the nine school bond issues. The motion was seconded by Senator Tori and passed by roll call vote. Five members voted affirmatively. Representative Damron abstained from the vote, citing a potential conflict of interest.

Ms. Collins said there were seven locally-funded school bond issues submitted to the Committee for review this month: Ashland Independent (Boyd Co.), Danville Independent (Boyle Co.), Hart County, Henry County, Meade County (2), and Monroe County. She said all disclosure information has been filed, and no further action on the bond issues was required.

Ms. Sandy Williams, Kentucky Infrastructure Authority (KIA), said members' folders included a report from KIA regarding 61 line-item Coal/Tobacco Development Grants approved in the 2004-06 budget. Representative Denham said no further action was required on these projects.

With there being no further business, Senator Buford made a motion to adjourn the meeting. The meeting adjourned at 8:50 a.m.